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10 April 1974

MEMORANDUM FOR THE RECORD

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SUBJECT: DCI Congressional Briefing -- The Oil
Situation

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The attached briefing was requested by [Redacted]

[Redacted] of the DCI's Briefing Staff. It was prepared

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by [Redacted] of this Branch and forwarded to the
requestor on 5 April 1974

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Attachment:
as stated.

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5 April 1974

DCI CONGRESSIONAL BRIEFING

THE OIL SITUATION

- I. The lifting of the Arab embargo, coupled with the Arabs' decision to increase output, should add some 2 million barrels per day of oil to world supplies.
 - A. The United States can expect to be receiving an additional 1 million barrels per day from Saudi Arabia alone.
 1. Saudi Arabia has even moved to minimize the effects of Libya's continuing embargo of the US by increasing its shipments further to make up the Libyan loss.
 - B. About half of the increased flow of Arab oil will reach the US after a transport delay of about 5 to 7 weeks.
 - C. Some Arab oil shipments now on the high seas will be diverted to US ports, and the knowledge that more oil is on the way has already resulted in a more liberal drawdown of domestic stocks.

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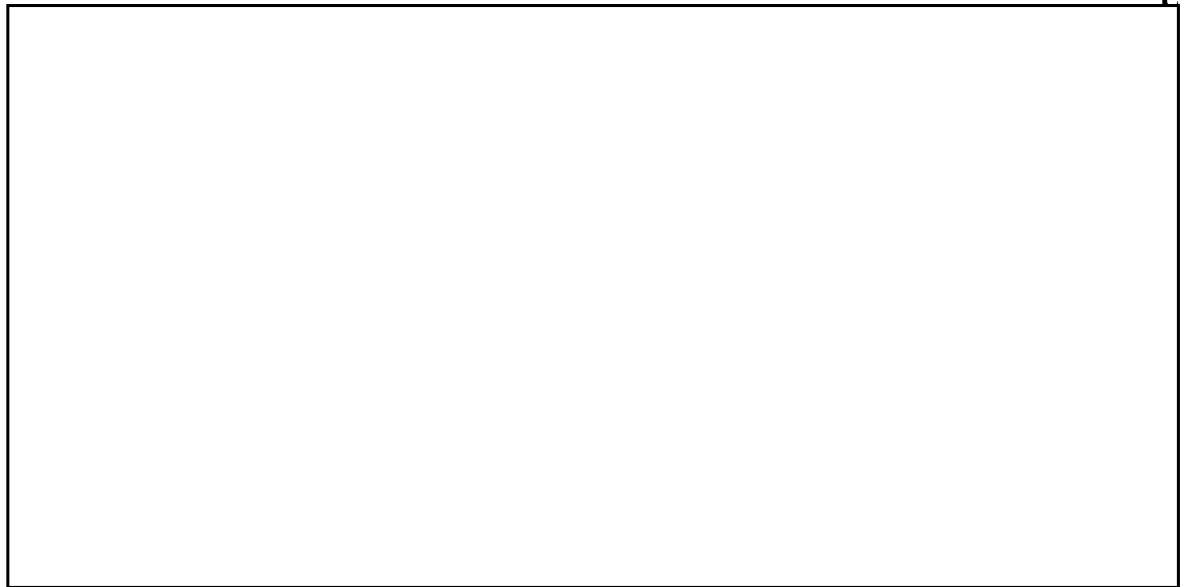
- D. This additional flow of oil should come very close to satisfying current US demand, which is running well below pre-crisis projections.
- E. Western Europe and Japan now have a relatively large supply of oil on hand.
 - 1. The Europeans now have about 82 days of stocks--only slightly below the level of a year ago, and double the normal level of commercial working stocks.
 - 2. Japan's stocks are at an adequate level of 45 to 50 days' consumption.
- II. Increased Arab oil production, coupled with a world-wide decline in the demand for oil, is already putting downward pressure on crude oil prices. The oil producing countries have not had much luck in selling their oil themselves.

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- III. Current trends now point to a potential surplus of crude oil and falling prices by mid-year.
- A. Along with increased Arab production, the pre-crisis projections of a rise in world oil consumption during 1974 is not occurring. Several factors will probably limit non-Communist oil consumption to about last year's level. These include the economic downturn in major industrial countries, cutbacks induced by higher oil prices, conservation programs, and mild weather early in the year.
- B. As a result, the prices of spot, auction, and buy-back oil will probably be pushed close to that of equity oil owned by the companies. The

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average price of Persian Gulf oil--now estimated at about \$9.50 per barrel--would then fall to about \$7.50.

- C. If Saudi Arabia holds to its present production schedule and if conservation measures and higher product prices continue to restrain demand, prices could fall even lower.
- D. We doubt that other countries, in the face of Saudi production increases, will be willing to cut their production enough to halt the decline in prices.

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